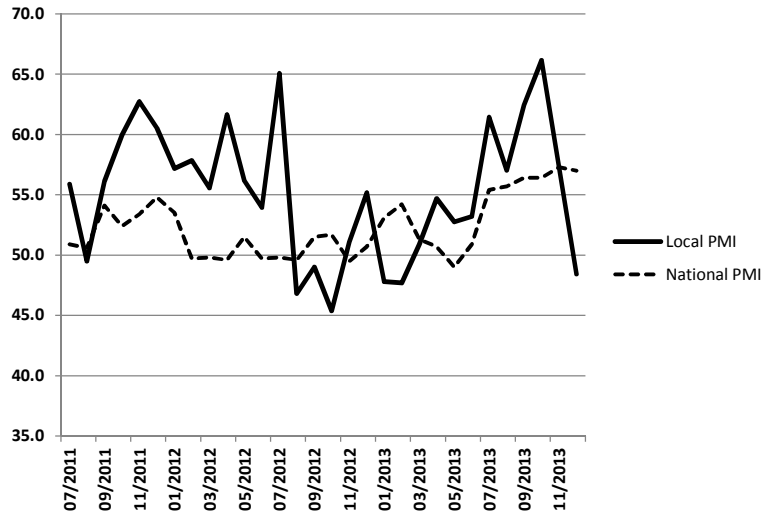


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**The PMI Index**

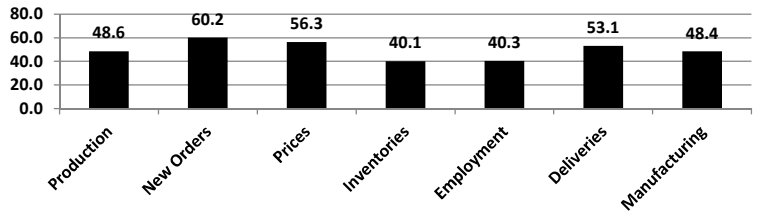
The local seasonally adjusted PMI Index showed a marked drop in December, falling below the 50.0 mark for the first time since February to 48.4. A value below 50.0 marks contracting local manufacturing activity. It was ultimately a holiday month and we did have some declines at this time in 2012 to rebound as 2013 progressed. Possibly more concerning is this result is combined with weak results in seasonally adjusted inventories and employment in December relating a broad softness in manufacturing. New Orders do remain in increasing territory at 60.2, but December results were certainly a break from what the greater Buffalo area enjoyed throughout most of 2013. One month's results doesn't signify a trend, but it is a concern.

To quickly touch on some other indicators, for New York state as a whole, December's Empire State Manufacturing Survey showed relatively flat activity among respondents. Local price level pressures remain modest remaining in increasing territory with an index value of 56.3 but otherwise inflation pressures seem to be currently in check.



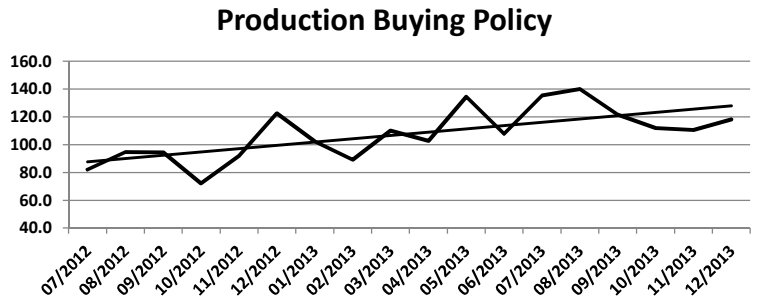
**This month (Seasonally Adjusted)**

Index	Index	Direction	Rate of Change
Production	48.6	Decreasing	Increasing
New Orders	60.2	Increasing	Flat
Prices	56.3	Increasing	Flat
Inventories	40.1	Decreasing	Increasing
Employment	40.3	Decreasing	Increasing
Deliveries	53.1	Increasing	Flat
Manufacturing	48.4	Decreasing	Increasing



**Production Buying Policy**

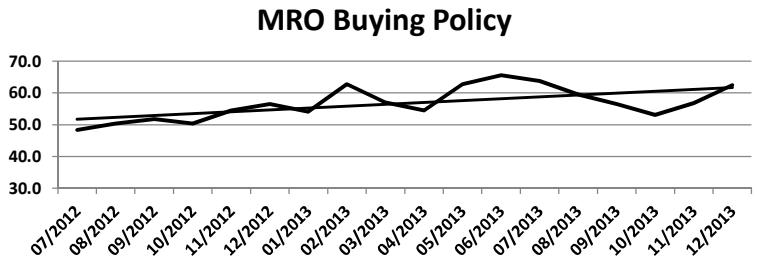
Survey respondents report days ahead commitments for production material ticked up a bit to 118.1 this month compared to 110.5 in November. After two months below the long term trend in terms of commitments, there was a bit of a convergence toward the trend line.



**MRO Buying Policy**

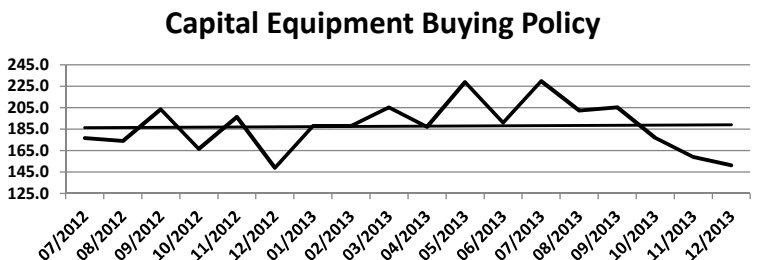
(Maintenance, Repair, and Operating)

Maintenance, Repair, and Operating (MRO) increased to 62.5 days in December from 56.8 days ahead in November. This index has been relatively flat over time although has shown a bit more variance in recent months.



**Capital Equipment Buying Policy**

Manufacturers are making commitments an average of 151.4 days for capital equipment in December, the third straight month below trend. We do seem to be exhibiting the same drop off that was evident in the 4th quarter of 2012, although in late 2013 this index has shown a consistent decline. The trend has been relatively flat and varied near trend for the last 18 months. I'll be interested to see if the series rebounds coming into 2014.



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**The Production level was:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2013	12.5%	62.5%	25.0%	43.8	65.0
November 2013	36.4%	45.5%	18.2%	59.1	45.5
October 2013	53.8%	46.2%	0.0%	76.9	45.8

The Production diffusion index dropped into contractionary territory in December. While not necessarily indicative of a break in trend, this does seem a bit more of a marked decline than some of the recent months.

**New Orders were reported:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2013	37.5%	37.5%	25.0%	56.3	50.0
November 2013	36.4%	36.4%	27.3%	54.5	40.9
October 2013	53.8%	38.5%	7.7%	73.1	25.0

The New Orders index continues in expansionary territory at 56.3, relatively flat to last month's 54.5 result. While a positive result, I take this continued expansion with a grain of salt along with the weakness in other indicators locally. Hopefully this can translate into strength in other areas, but it seems like this value is favorable in spite of other results.

**Commodity Prices are:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2013	12.5%	87.5%	0.0%	56.3	65.0
November 2013	9.1%	81.8%	9.1%	50.0	63.6
October 2013	7.7%	76.9%	15.4%	46.2	66.7

Commodity prices report their second straight month in increasing territory, although they are generally holding to the longer term trend of decreasing price pressures. As a year end note, my longer term inflation concerns remain due to the large amount of excess reserves commercial banks are holding at the fed.

**Inventories of Purchased Goods were:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2013	12.5%	50.0%	37.5%	37.5	45.0
November 2013	27.3%	54.5%	18.2%	54.5	45.5
October 2013	46.2%	38.5%	15.4%	65.4	37.5

The Inventories of Purchased Goods index fell off in December to 37.5 reaching levels not seen since last year at this same time period. This could be anticipated due to weakness, or possible draw downs in inventory for tax purposes at year end.

**Employment Levels were:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2013	0.0%	75.0%	25.0%	37.5	40.0
November 2013	18.2%	54.5%	27.3%	45.5	45.5
October 2013	15.4%	61.5%	23.1%	46.2	45.8

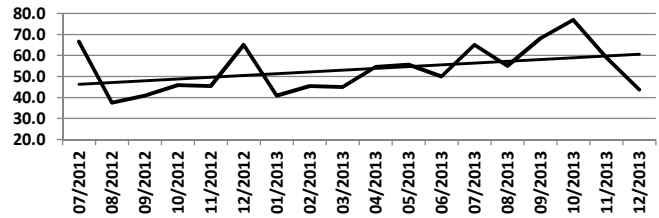
Employment marked its third straight month in contractionary territory among local respondents. There was strength mid year that definitely trailed off as the cooler weather arrived in WNY, with no respondents reporting higher employment levels in December.

**Vendor Deliveries were:**

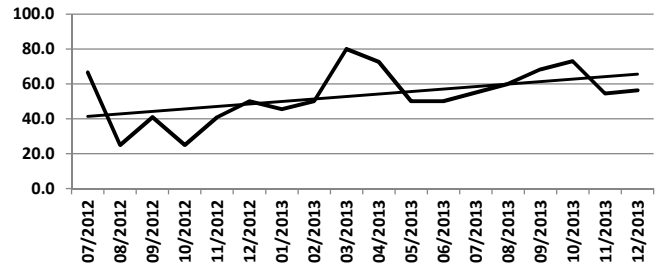
Period	Higher	Same	Lower	Index	Prior Yr
December 2013	12.5%	75.0%	12.5%	50.0	55.0
November 2013	18.2%	72.7%	9.1%	54.5	63.6
October 2013	7.7%	84.6%	7.7%	50.0	58.3

Vendor Deliveries remain in expansionary territory, albeit barely, at 50.0 this month. This series continues to show expansion, although continues its generally easing trend for the past 18 months.

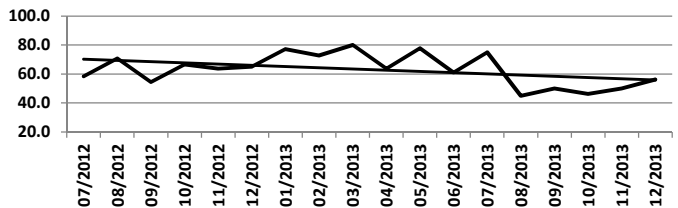
**Production - Diffusion Index**



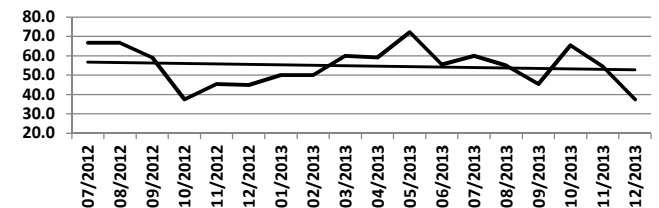
**New Orders - Diffusion Index**



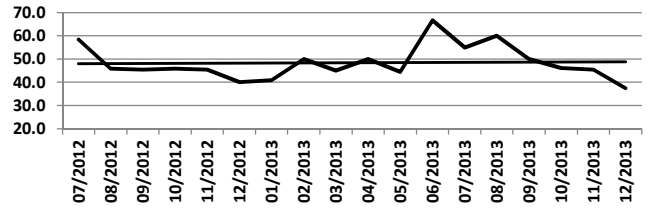
**Commodity Pricing - Diffusion Index**



**Inventories - Diffusion Index**



**Employment - Diffusion Index**



**Vendor Deliveries - Diffusion Index**

